The Path to Innovation

An InnovationLabs White Paper

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Introduction

Innovation is one of those words that means many things to many people. What it means to InnovationLabs is fundamental change in the value that a company offers to its customers and other stakeholders, or fundamental reductions in the cost of creating and providing that value.

By choosing the word “fundamental,” we make a distinction between improvement and innovation. While improvement is necessary, it is generally incremental and based on an existing concept or approach. An innovation, in contrast, addresses a problem in new and perhaps previously unseen ways.

Innovation is well recognized as a compelling source of competitive differentiation, and in fact we would go so far as to say that a constant flow of innovation is the only source of sustainable competitive advantage. That makes it a necessary and important topic. It is also important to note that achieving consistent, effective and innovative behavior is a tremendously difficult challenge for most organizations.

The purpose of this white paper, then, is to examine some key aspects of innovation as it pertains to the challenges and opportunities that many of today’s organizations face. In particular, we describe what we call The Path to Innovation, a set of core processes that we have found to invoke innovative behaviors, innovative activities, and most importantly innovative results within organizations.

The Problem of Innovation

It is evident that innovation is difficult to achieve, and it seems that the larger an organization becomes, the more difficult it is for it to be a consistent innovator. Why is this?

Over the course of many years we have observed numerous obstacles to innovation that arise in areas such as organization design, performance, and structure, facilities design, individual and collective behavior, and management processes. At root, we see that the lack of innovation comes down to two kinds of issues, one organizational and the other behavioral.
The Organizational Question

The underlying nature of today’s large organizations, and their basic needs, structures and processes, are often significant innovation inhibitors. As organizations grow, the number of people who must interact with one another in order to accomplish basic activities typically increases, and rapidly. In reaction to the growing cost of these interactions, and in response to competitive demands in the marketplace, there is an increasing need for efficiency that crowds out innovative thinking in favor of staying within the realm of the known world. Organizations are therefore structured to capture as many efficiencies as possible and their core processes are routinized to remove waste.

This drive for operational efficiency discards options and flexibility in exchange for increased value from reduced cost. This is natural and required in order to pull organizations away from the chaos that results from lack of focus or a tendency to chase every new idea under the sun. But too much emphasis on standardization and efficiency can throw the organization on the other side of the fence into stagnation. The game to play is always a balance of innovation and improvement. Innovation tends to create new systems and discover new marketspace, while improvement tends to discover new efficiencies. And sometimes innovation does both - a new idea that creates new marketspace with incredible efficiency.

The Behavioral Question

People in organizations commonly develop behaviors that blind them to innovation opportunities. This is a result not of any particular human shortcomings, but of the innate cognitive process of the brain that is heavily reliant on re-using existing knowledge structures. People tend to force fit new information into existing stereotypes and mental models. They create and recreate what they already know in spite of what the data might be saying to them. These patterns of thought reinforce patterns of behavior and relieve people from having to analyze and respond to every situation as if it were brand new. Particularly amid a frantic work schedule, people rely on old concepts and have difficulty absorbing new ideas.

In most organizations, furthermore, acceptance of the status quo is continually reinforced in the drive for efficiency, making efficiency a behavioral issue as well as an organizational one.
This is compounded by structures and processes in most firms that are by nature and necessity risk-averse, resulting in a further bias against innovation that shows up in nearly every aspect of the organization’s products, services, and administration. The tightest conformance control loop is governed by compensation. Despite the change management mantra from the 1990’s, no one is rewarded for failure. Yet the discovery of innovative solutions depends upon experimentation and frequently involves - and ought to involve - some risk of failure.

And yet another issue is the tendency toward “groupthink,” a natural human pattern of conformist behavior that often results in suppressed innovativeness and lost innovations. The ability to follow a norm holds society together, yet it also excludes behavior and innovations that may be found on the periphery of the norm. People also have a tendency to mimic exemplars, and if the exemplars are focused on efficiency to the exclusion of innovation, group behavior will trend with this focus.

All of these tendencies merge together when you hear the line that begins, “We don’t do things that way here ….” which is generally offered as sufficient reason not to do whatever it is that you happen to need at that particular moment. There may be a good reason why we don’t things that way here, but often the reason is simply that, for better or worse, that’s the way we’ve always done it, and the person in front of you is not about to take the organizational risk of doing it differently.

When the marketplace was more stable, when competitors were not changing particularly quickly, then it may have been perfectly adequate for organizations to be dominated by status quo thinking tempered by incremental improvement and diligent reduction of waste. Today, however, markets consistently devalue organizations that are not innovative. This means that innovative behavior which leads to innovative results is of greater importance than ever, so we need to find ways to enable people to see the latent possibilities that have been hidden beneath their repetitive everyday experiences.

Certainly there is a very close linkage between the organizational dimension and the behavioral one. Therefore, an approach that promises to address innovation must deal with both, as well as numerous other dimensions as well. But before we get to that discussion, let us first look at the market-driven consequences of non-innovative behavior.
Organizations that consistently fail to innovate develop what we call “Innovation Deficiency Syndrome,” and come sooner or later to experience a “Value Call.” A value call, like a margin call on a stock market investment, occurs when a company’s value proposition becomes so weakened in the marketplace that it must quickly and decisively boost the market’s perception of its value proposition, or face a serious degradation of its image and its prospects. Resources that should have been invested into ongoing innovation are “called” into play by tapping resources that have been focused relentlessly on improvement.

Two recent examples (both on the extreme side): General Motors announced in early 2001 that due to declining sales, its Oldsmobile line, the oldest surviving brand in the US auto industry, will be discontinued after the 2003 model year. Similarly, between March 2000 and March 2001, the aggregate value of NASDAQ stock market index declined from a high of 5500 to a low of less than 2000 as investors came to believe that the companies listed on the NASDAQ just didn’t offer such high value as investments.

GM determined that it simply could not meet the requirements of the Value Call, and folded the tent, while the NASDAQ companies, or at least those which survive, will see their values increase in line with more traditional performance measures.

Overall, innovation is one of only a hand full of the possible responses to a Value Call. (Increasing efficiency can also be a valid response.) However, given that the preponderance of people are status-quo oriented, and given that organizations unintentionally drive out innovative behaviors, it quickly becomes apparent that companies may have difficulty starting their innovation engines.

Hence, the Path to Innovation, as we call it, is a core approach supported by a set of methods that enable individuals and organizations to select and enhance innovative behaviors, and to create and support innovative initiatives throughout a company. In a more profound way, these methods embody the possibility of fundamental, long-term change because they address the foundations of organizational behaviors, structures, and performance.
Let us begin by asking the question, If you wanted to become more innovative, how would you go about doing it? At root we recognize that the problem of innovation is organizational and systemic, and therefore a path to innovation must likewise be organizational in scope and systemic in approach. It is not a simple set of problems, and in fact it is a daunting bundle of complexity involving many different aspects and elements. As we noted above, observation reveals that innovativeness is tremendously valuable, and tremendously difficult for organizations to achieve on a consistent basis. So the ambition to which the path to innovation aspires is not low hanging fruit, but a challenging goal that is far beyond easy grasp. What follows are key aspects that we have found must be accomplished in order for an organization to become innovative, to become recognized as an innovator, and to reap the competitive advantages therefrom.

Our presentation of the path to innovation follows three steps. It begins with awareness and shared understanding, proceeds through the development of new organizational processes, and leads finally to the formation of new organizational structures. Awareness, process, structure. This progression recognizes that organizational processes are fluid, while organizational structures are more difficult to design, more difficult to implement, and most difficult of all to modify. Hence, the more fluid elements fall earlier in the overall process, while the more rigid arrive later when there is more experience on which to base the longer-term, more costly decisions.

Together, the interventions on this path are designed and implemented to counteract the anti-innovative organizational and behavioral processes noted above, and which support and promote innovative behaviors in every aspect of the organization’s operations and culture.
The first step on the path must involve creating awareness through introspection. Organizational leaders must understand themselves, and how they individually and collectively support or block innovation. They must also grasp why organizational systems display innovative behavior, and why they don’t. They must understand the broad scale, scope, and language of the innovation problem in all its many dimensions, and explore alternative possibilities and strategies for its solution. And they must examine the profound challenges inherent in organizational change initiatives, and expose strategies to help managers anticipate and respond correctly to the uniquely human issues that inevitably emerge.

(Our hypothesis about this kind of organizational change is described in a forthcoming White Paper, The Hero’s Journey: Innovation, Leadership and Organizational Change.)

Developing a shared understanding provides the foundation upon which new processes and structures can be introduced into an organization with clarity as to the initiatives, commitment to seeing them through, and confidence that they will achieve the intended results.

The initiation of this step can take anywhere from a single half-day conversation to a series of workshops taking place over a few months. But the rate of flow of new people through an organization means that innovation awareness must be built into hiring, training and advancement practices. The creation of these practices is a part of the second step in the path.

On a basis of emergent understanding, it becomes possible to implement new organizational processes to overcome innovation blockages. Two of these are the InnovationQuest™ approach to collaborative design and the Strategic Modeling System™ for innovation targeting.
An important organizational and behavioral aspect of innovation is that innovation is rarely an output of isolated genius. Today’s significant innovations, including those that confer competitive advantage, are developed through effective collaboration between people in different parts of an organization, or even from different organizations. This collaboration is either routine, designed, or serendipitous. Routine collaboration is the type used to process the work of the organization, whether along an assembly line, or in the delivery of a service. Serendipitous collaboration is the type that happens at the water cooler or during casual conversations. Designed collaboration has been feebly attempted by most organizations in the way they conduct meetings. But there is much more to designed collaboration than is generally practiced.

Effective designed collaboration is both an art and a science that is neither well understood nor widely practiced, but it is a critical organizational process that must be developed. At the heart of collaborative design is the need to compose a group in which each individual brings unique and necessary insights and perspectives that may contribute in a useful way. The group as a whole must progress through a shared experience, a shared learning process, in which their distinct points of view can be explored, tested, and combined into new insights and agreements.

The goal of effective collaboration is “creative combination,” the bringing together of two or more ideas in unforeseen and often unexpected ways to yield new insights and solutions. Creative combination is at the core of most innovations in most fields, from the sciences to engineering and organizations. The design of a collaborative event is therefore the design of a “learning pathway” that provokes interesting and useful combinations of previously disparate ideas. It relies heavily on an appreciation of individual and collective cognitive behaviors and how to guide them forward.

We call our approach to collaborative design “InnovationQuest” in recognition of the open-ended process of discovery that typically occurs. InnovationQuest is a powerful tool for creating innovations in response to very specific organizational issues, problems, and opportunities.
When we begin Innovation Quest the leaders of an organization generally have challenges they wish to address or problems they wish to solve. It is important to note that in defining an overview of the innovation opportunities as they apply to today’s organizations, we have identified more than 30 different possibilities in the areas of business models, customer experience, products, services, supply chain, administration, and organization. Behind each possibility is a story or a case study, or many of them, which describe how that particular innovation enabled some firm to achieve an advantage in the marketplace. What that means to you is that careful targeting is required to select the areas that offer the greatest promise of value for the organization and its customers. The Strategic Modeling System, described below, is an effective targeting tool.

In practice, InnovationQuest gives participants a profound personal and shared experience of success in the innovation process, and achieves better results in days than might otherwise be obtained in months. One reason that time is so greatly compressed is that InnovationQuest is a process of synthesis, drawing forth insights and awarenesses from individuals, and driving useful creative combinations. While analytical research and decision making processes tend to be linear and therefore take much longer, collaborative design is a process of synthesis, in which many different aspects of a simple problem can be examined and decided in parallel.

InnovationQuest also exemplifies other important elements that will become embodied in the innovation organization. For example, it is often tempting to go outside the organization for expertise, points of view, and especially for expert advice. Frequently, however, the same expertise already resides inside the organization,
unrecognized and perhaps underdeveloped. InnovationQuest transforms inside knowledge and experience into compelling authority that can be broader, deeper, and more useful than any insights available from the outside. This process therefore empowers people within the organization to experience themselves as experts and innovators, and encourages them to carry innovative behaviors forward into others aspects of their work.

InnovationQuest engagements may extend for several months from inception through execution, and are punctuated by events that typically last from 1 to 4 days, with additional time in advance for preparation and time afterwards for follow-up and implementation management.

Because innovation has so great an effect on organizations and the systems used to operate and manage them, it has a great bearing on corporate strategy, and vice versa. In fact, these two issues, along with the dynamics of organizational performance, are completely and utterly interdependent. Therefore, the process of creating innovations is at its core a process of defining strategy and of defining critical organizational characteristics at the same time.

Strategic Modeling is a systemic and systematic approach to the design of corporate strategy, developed by going back to the roots of strategic thinking. A strategic model is articulated using the concept of “fitness landscapes” that describe the overall “terrain” of a competitive marketplace. Strategic modeling takes as its purpose the search for the most advantageous positions in the terrain. Once these positions are identified, it is possible to define a transition pathway from whatever position the organization occupies today, to a new, better position. Passage along the transition pathway usually requires significant innovation, and therefore definition of the pathway creates both clear priorities and a compelling context for innovation-seeking behavior throughout an organization.

Strategic Modeling therefore defines a process for innovating at the level of corporate strategy. Hence, processes such as InnovationQuest support and promote innovative behaviors and provide specific solutions, while Strategic Modeling defines a strategic view of the competitive landscape in order to help prioritize among many possible innovation targets.
Strategic Modeling engagements span several months and include workshops that usually last 2 to 3 days. Depending upon the complexity of the situation and the rate of change in the marketplace, two or three workshop iterations may be required.

Organizational structures tend not only to endure, but they both empower and limit organizational performance. They empower it because the right structures support effective behaviors by individuals and groups; they limit it because they often do not allow for innovations that could provide significant benefit. Therefore, the tools and structures that make up step 3 support the emergence of innovation by providing important structural foundations for long term results.

The Innovation Refinery™ is a comprehensive “bottom-up” process of finding and supporting breakthrough ideas from within an organization. In most organizations there are untold riches of unexposed talent and fresh ideas inside a company that frequently lie dormant, unable to find expression. When brought forth with proper support and direction, they can significantly impact the business.

The refinery consists of specific programs to help people with ideas develop and test innovation concepts and business models, screen and select the best ideas, and seed funding to develop and sustain these internal start-ups long enough to determine their ultimate value. The refinery approach provides a disciplined structure to support the search for and development of innovative ideas that bring significant business impact based on knowledge and experiences that already exist inside the organization.

The Innovation Refinery can be developed in a pilot program and then expanded as appropriate. Operation of the necessary organizational structure can be done within the organization, or its design and management can be outsourced.
GX-OS™ is an internet-based tool, under development, to support internal communication and feedback to enable more effective implementation of all kinds of organizational programs and initiatives, including those focused on innovation, strategy, and organizational issues, and others as well.

The significance of GX-OS is that the fate of all innovation is dependent on downstream organizational performance, the ability to execute. The dynamics of execution are multi-dimensional, and one of the most critical and often overlooked elements has to do with the feedback that individuals throughout the organization receive concerning their individual and collective performance. GX-OS therefore provides the right kind of feedback to managers and teams at all level of an organization, enabling them to make appropriate course corrections.

GX-OS also supports effective implementation of both new initiatives and ongoing work through automated task management and reporting tools. And it supports ongoing innovativeness through structured dialog and communication tools focused on new creative combinations.

Conclusion: Emergent Strategy

Together the application of these elements results in a systemic, indwelling capacity for innovation as a core organizational process in support of sustainable competitive advantage. Through the effective implementation and integration of the three steps on the path to innovation, the ultimate destination of a transformation of the organization’s entire way of operating comes within reach. At the end of the process, we anticipate that a new state of organizational dynamics will emerge concerning innovation and its critical relationship with strategy and organization.

Historically, corporate strategy has been defined a priori, and implemented come what may. Minzberg, however, has pointed out that the term “strategic planning” is a contradiction in terms, as “strategy” is necessarily a process of integration and synthesis, while “planning” is inherently analytical and fragmentary.
The path to innovation described here goes beyond the limitations of planning, leads to a new set of conditions concerning strategy and its creation. When an organization applies the processes and structures described here, it becomes closely attuned to its market and the key factors that influence market behavior. We anticipate that it may no longer have to devise strategy in advance, and that instead it will be able to articulate, develop, and implement strategy in conjunction with the evolution of the market. We call this real time process “emergent strategy,” and we believe that it will both express and confer a significant and sustainable competitive advantage.

In pursuit of these goals, our role at InnovationLabs is to help you determine which innovations will make the greatest difference for your organization, and to provide the awareness, tools, and methods to enable your organization to achieve them.

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In addition to the concepts, tools, and methods described here, InnovationLabs has developed and offers detailed approaches concerning the management of R&D and innovation in both technical and non-technical settings. Many of these are described in the recent book, Fourth Generation R&D: Managing Knowledge, Technology, and Innovation (John Wiley & Sons, 1999) co-authored by Langdon Morris.

Additional White Papers on related topics, and more information on our services, may be found at our web site, www.innovationlabs.com.

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